



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

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|-----------------|----------------------|----------------|---|
| Date Amended: | 05/24/01 | Bill No: | AB 680 |
| Tax: | Bradley-Burns | Author: | Steinberg |
| Board Position: | Neutral | Related Bills: | SB 1982, SCA 18, SB 2000, SCA 17 (1999-2000) |

BILL SUMMARY

Among its provisions, this bill would change the allocation method of the one percent local sales tax in El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba counties.

ANALYSIS

Current Law

The Bradley-Burns Uniform Local Sales and Use Tax Law (commencing with Section 7200 of the Revenue and Taxation Code) authorizes counties to impose a local sales and use tax. The rate of tax is fixed at $1\frac{1}{4}$ percent of the sales price of tangible personal property sold at retail in the county, or purchased outside the county for use in the county. All counties within California have adopted ordinances under the terms of the Bradley-Burns Law.

Under the Bradley-Burns Law, the $\frac{1}{4}$ percent tax rate is earmarked for county transportation purposes, and 1 percent may be used for general purposes. Cities are authorized to impose a sales and use tax rate of up to 1 percent, which is credited against the county rate so that the combined local tax rate under the Bradley-Burns Law does not exceed $1\frac{1}{4}$ percent.

The $1\frac{1}{4}$ percent tax is collected by the Board, primarily from remittances by retailers. The Board currently allocates the tax to cities and counties primarily based on the retailer's place of business (i.e., situs method of allocation).

Proposed Law

This bill would add Chapter 1.5 (commencing with Section 7215) to Part 1.5 of Division 2 of the Revenue and Taxation Code to provide for the trial and implementation of a regional local sales tax revenue allocation program. Specifically, this bill would make various findings and declarations, and would require that the Board segregate the one percent local sales tax revenues imposed in the greater Sacramento region, which would include the counties of El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba.

For the first calendar quarter of 2002, and each quarter thereafter, in lieu of the allocation procedures provided in current law for the one percent local sales tax

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revenue that is generated in cities and unincorporated areas of counties, the Board would be required to apportion the segregated revenues according to a calculation of the "base quarter revenue amount" for each jurisdiction. According to the bill, "base quarter revenue amount" is the amount of sales tax revenue that a county or city in the region received during the corresponding calendar quarter in 2001. Any remaining revenues would be allocated based on the proportion of each jurisdiction's population to the total population in the region. The Department of Finance would be required to determine the populations in each jurisdiction.

This bill would also require the Board, along with the Legislative Analyst's Office and the State Air Resources Board, to report to the Legislature by January 1, 2007, regarding the reallocation of local sales tax revenue and the changes in air quality in the greater Sacramento region subsequent to the passage of this bill. The report would be required to include: 1) estimates of the fiscal impact of this bill on local governments in the Sacramento region; 2) case studies documenting whether land use decisions made by local jurisdictions in the region were affected by this bill; 3) recommendations regarding whether to continue the allocation formula and, if applicable, suggestions for amending the provisions in this bill to better achieve the Legislative intent to promote smart growth land use policy; and 4) an evaluation of air quality changes in the greater Sacramento region subsequent to this act.

The remaining provisions of this bill would not impact the Board. This bill would become effective January 1, 2002.

Background

"The fiscalization of land use" refers to the concept of examining land use decisions in the context of their revenue and expenditure consequences. Because Proposition 13 reduced the revenues that would be received from property taxes from any particular development (industrial, commercial, or residential), local jurisdictions began to pay even more attention to the fiscal outcomes of land use decisions, and those uses that generated revenues in addition to property taxes have been elevated in importance.

The decision by local governments to utilize land for retail sales in order to generate sales tax revenues is one example of the fiscalization of land use. Local governments have engaged in numerous activities to encourage retail activity in their jurisdiction, such as zoning excessively for retail, providing sales tax rebates to retailers who locate in their jurisdiction, waiving developer fees, and expediting the permit process.

This bill is intended to address, among other issues, the fierce competition that local entities are now facing in getting as much local (1.0%) sales and use tax revenue as they can.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the author in an effort to put jurisdictions in the Sacramento region on a "level playing field" in terms of per capita sales tax revenue, and enable the Sacramento region to increase power generation by doing smart growth planning and energy conservation. According to the author,

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this bill would allow all regional jurisdictions to benefit equally from future sales tax revenue growth, regardless of where growth occurs within the region, would allow jurisdictions to have more stability in their budget, and enable them to make planning decisions on a regional level.

2. **The May 24th amendments require the Legislative Analyst's Office, with help from the Board and the State Air Resources Board, to report to the Legislature regarding the impact of the bill, as specified, in the Sacramento region.** In this regard, the Board would be able to provide actual sales tax allocation figures and other relevant data maintained in its records. The report would be due on or before January 1, 2007.
3. **Some of the increased administrative costs could be paid by cities outside of the region.** The Board's central agency and some shared costs would increase as a result of this bill, and those costs are shared by all cities and counties statewide. Central agency costs are those costs incurred by the state's central service departments for activities that benefit all state departments, including the Board. Examples of these activities include the state controller issuing warrants and the state treasurer cashing warrants. Shared costs are defined as the costs of the board's tax administration system that benefit the state, local governments, and STJs individually and jointly but cannot be separately identified as being directly incurred to support any entity. These are the Board's basic, or infrastructure, costs. However, the bill could be amended so that only the cities and counties in the region pay the increased costs.
4. **Suggested amendments.** As currently written, this bill does not contain base year provisions for new cities, newly annexed areas, or consolidated areas created after 2001. Base amounts would be determined by revenues received in the corresponding 2001 calendar quarter. Also, the new allocation method proposed by this bill does not include "use tax" revenues, which would be very difficult to segregate from sales tax revenues. Board staff have other technical concerns with the bill and will work with the author's office on suggested technical amendments as the bill moves through the Legislature.
5. **Related legislation.** This bill is similar to SB 1982 (Alpert) and SB 2000 (Polanco) from the previous session. In their original forms, those bills would have changed the local sales and use tax distribution method from the current situs-only basis (place of sale) to combinations of situs and population bases for each county and all cities within the county. The Legislature then created a conference committee centered around another bill, AB 1396 (Aroner, et al.), to address issues relating to local government finance in a comprehensive package. The authors stripped the original language in SB 1982 and SB 2000 in order to be a part of those discussions. As enacted AB 1396 (Chapter 903, Stats. 2000) simply appropriated \$212 million for local fiscal relief.

This bill is also similar to AB 3505 (V. Brown) from the 1993-94 Legislative Session. That bill, which the Board voted to oppose, would have provided a similar method to change the distribution of the local sales and use tax from the situs basis to a per capita basis for each county and all cities within the county. The Board was

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concerned with the “winners” and “losers” situation that the bill would have created. Assembly Bill 3505 failed to pass the Assembly Local Government Committee.

COST ESTIMATE

This bill would require the Board to account for an entirely new system of allocating local sales tax revenue for the Sacramento region. Revenue and Taxation Code Section 7204.3 provides that the Board shall charge jurisdictions for administrative costs and shall deduct the costs in equal amounts from the quarterly allocations. As noted in Comment 2, some of the additional costs would be borne by all cities and counties throughout the state.

REVENUE ESTIMATE

This proposal would not impact the total amount of one-percent local sales and use tax revenue collected. However, some jurisdictions would receive more revenue under this proposal than they would have under the current method and others would receive less. As an indication of the amount of shift in one-percent local sales and use tax revenues between the jurisdictions in the greater Sacramento region, the attached table compares the actual 1999-2000 allocation with the proposed method.

| | | | |
|-----------------------|-------------------|----------|----------|
| Analysis prepared by: | Laurie Patterson | 324-1890 | 05/30/01 |
| Revenue estimate by: | Dave Hayes | 445-0840 | |
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AB 680
Allocation of Local Sales and Use Taxes
Six-county "Greater Sacramento Region"
(amounts in dollars)

| | 1/1/01 Population | Jurisdictional Share | 1998-99 Allocation | 1999-2000 Allocation | Increase | Proposed Allocation of Increase | AB 680 Allocation 1999-2000 | Difference From Actual 1999-2000 |
|--------------------|----------------------|-------------------------|-----------------------|-------------------------|-------------------|---------------------------------------|-----------------------------------|--|
| El Dorado County | 125,800 | 6.318% | 5,378,326 | 6,330,739 | 952,413 | 2,025,924 | 7,404,250 | 1,073,511 |
| Placerville | 9,900 | 0.497% | 2,333,425 | 2,668,985 | 335,560 | 159,433 | 2,492,858 | (176,127) |
| South Lake Tahoe | 23,950 | 1.203% | 3,059,181 | 3,464,987 | 405,806 | 385,699 | 3,444,880 | (20,107) |
| County Total | 159,650 | 8.019% | 10,770,932 | 12,464,711 | 1,693,779 | 2,571,055 | 13,341,987 | 877,276 |
| Placer County | 101,600 | 5.103% | 9,059,401 | 10,167,382 | 1,107,981 | 1,636,199 | 10,695,600 | 528,218 |
| Auburn | 12,500 | 0.628% | 2,301,856 | 2,594,052 | 292,196 | 201,304 | 2,503,160 | (90,892) |
| Colfax | 1,540 | 0.077% | 423,839 | 477,477 | 53,638 | 24,801 | 448,640 | (28,837) |
| Lincoln | 13,900 | 0.698% | 614,722 | 736,038 | 121,316 | 223,850 | 838,572 | 102,534 |
| Loomis | 6,300 | 0.316% | 536,722 | 946,125 | 409,403 | 101,457 | 638,179 | (307,946) |
| Rocklin | 38,650 | 1.941% | 2,937,840 | 3,852,748 | 914,908 | 622,432 | 3,560,272 | (292,476) |
| Roseville | 83,000 | 4.169% | 19,388,364 | 23,716,494 | 4,328,130 | 1,336,659 | 20,725,023 | (2,991,471) |
| County Total | 257,490 | 12.933% | 35,262,744 | 42,490,316 | 7,227,572 | 4,146,702 | 39,409,446 | (3,080,870) |
| Sacramento County | 674,900 | 33.898% | 71,188,321 | 80,295,002 | 9,106,681 | 10,868,808 | 82,057,129 | 1,762,127 |
| Citrus Heights | 86,800 | 4.360% | 9,803,052 | 10,639,829 | 836,777 | 1,397,855 | 11,200,907 | 561,078 |
| Folsom | 57,200 | 2.873% | 7,508,214 | 9,667,582 | 2,159,368 | 921,167 | 8,429,381 | (1,238,201) |
| Galt | 20,250 | 1.017% | 703,307 | 845,310 | 142,003 | 326,113 | 1,029,420 | 184,110 |
| Isleton | 840 | 0.042% | 89,425 | 108,514 | 19,089 | 13,528 | 102,953 | (5,561) |
| Sacramento | 418,700 | 21.030% | 47,845,998 | 54,979,368 | 7,133,370 | 6,742,880 | 54,588,878 | (390,490) |
| County Total | 1,258,690 | 63.219% | 137,138,317 | 156,535,605 | 19,397,288 | 20,270,351 | 157,408,668 | 873,063 |
| Sutter County | 30,150 | 1.514% | 2,065,022 | 1,982,495 | (82,527) | 485,545 | 2,550,567 | 568,072 |
| Live Oak | 6,475 | 0.325% | 91,067 | 114,495 | 23,428 | 104,275 | 195,342 | 80,847 |
| Yuba City | 44,300 | 2.225% | 5,760,277 | 6,549,545 | 789,268 | 713,422 | 6,473,699 | (75,846) |
| County Total | 80,925 | 4.065% | 7,916,366 | 8,646,535 | 730,169 | 1,303,242 | 9,219,608 | 573,073 |
| Yolo County | 22,150 | 1.113% | 1,541,917 | 1,785,506 | 243,589 | 356,711 | 1,898,628 | 113,122 |
| Davis | 62,200 | 3.124% | 3,816,561 | 4,219,306 | 402,745 | 1,001,689 | 4,818,250 | 598,944 |
| West Sacramento | 32,250 | 1.620% | 8,254,053 | 9,269,388 | 1,015,335 | 519,364 | 8,773,417 | (495,971) |
| Winters | 6,250 | 0.314% | 165,109 | 202,686 | 37,577 | 100,652 | 265,761 | 63,075 |
| Woodland | 50,600 | 2.541% | 5,928,958 | 6,733,096 | 804,138 | 814,879 | 6,743,837 | 10,741 |
| County Total | 173,450 | 8.712% | 19,706,598 | 22,209,982 | 2,503,384 | 2,793,295 | 22,499,893 | 289,911 |
| Yuba County | 46,300 | 2.325% | 1,657,978 | 1,794,986 | 137,008 | 745,630 | 2,403,608 | 608,622 |
| Marysville | 12,200 | 0.613% | 1,500,671 | 1,871,973 | 371,302 | 196,473 | 1,697,144 | (174,829) |
| Wheatland | 2,280 | 0.115% | 85,251 | 88,216 | 2,965 | 36,718 | 121,969 | 33,753 |
| County Total | 60,780 | 3.053% | 3,243,900 | 3,755,175 | 511,275 | 978,821 | 4,222,721 | 467,546 |
| Grand Total | 1,990,985 | 100.000% | 214,038,857 | 246,102,324 | 32,063,467 | 32,063,467 | 246,102,324 | - |